

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
FINANCIAL ASSISTANCE DIVISION****Community and Economic Development Section**

State CDBG Program

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**CDBG****Community Development Block Grant Program****MANAGEMENT MEMORANDUM****Memorandum Number 05-15****TO: All CDBG Eligible Jurisdictions & Interested Parties** **DATE: November 18, 2005****SUBJECT: Sub-granting CDBG Funds to Non-profit Corporations to Carry out Certain Types of Activities and to De-federalize Future CDBG Loan Repayments****Purpose of this Memo:**

The purpose of this memo is to inform State CDBG-eligible cities and counties (grantees) that they may "sub-grant" certain CDBG activities to non-profit corporations as authorized under Section 105(a)(15) of the Housing and Community Development Act of 1974 (42 U.S. Code Section 5305). Up until now, State CDBG Program grantees entered into contracts (procured) or subrecipient agreements (selected) with nonprofit corporations to which they were passing through CDBG funds. We are now advising that a third type of agreement - a sub-grant agreement - is required in certain cases. A grantee may non-competitively select a sub-grantee.

The following are the only types of activities that may be sub-granted: 1) Programs or projects that are part of a local neighborhood revitalization project; 2) Community economic development projects, and; 3) Energy conservation projects. We are aware of two circumstances in which a grantee must use the sub-grant mechanism; when it wishes to: A) undertake an activity that would be eligible only if undertaken by the grantee itself or by a non-profit corporation, such as housing new construction (under neighborhood revitalization, above) or; B) select a non-profit corporation to carry out an activity that fits within the above three activity categories, allow the non-profit to keep the repayments from loans it makes, and for the loan repayments to be "de-federalized". I.e., under the authority of 24 CFR 570.489(e)(2)(ii) the repayments from loans would not be CDBG program income.

Conditions for Sub-granting CDBG Funds:

The following are the main conditions associated with sub-granting CDBG funds:

- The grantee selects a 501(c)(3) nonprofit corporation to be its sub-grantee to carry out an allowable activity. The grantee and sub-grantee submit and the Department approves the Determination of Eligibility of Sub-grantee form. The grantee and sub-grantee enter into a sub-grant agreement meeting the usual CDBG contract requirements and which, in cases of de-federalization, has been approved in writing by CDBG.
- The sub-grantee must "carry out" the activity, meaning it will undertake the activity directly or through contracts with an entity other than the grantee.
- In order to de-federalize loan repayments the sub-grantee must be the lender, and must use the loan repayments as the grantee specifies in the sub-grant agreement. The Department encourages continuation of the same activity that was sub-granted.

Once the above conditions and any other applicable State CDBG standard agreement or PI Reuse Plan conditions are met then the sub-grantee may begin to carry out the sub-granted activity or activities. Additional guidance, detailed procedures and the Determination of Eligibility of Sub-grantee form, may be obtained from your CDBG or EDBG Representative and will be incorporated into the 2006 Grant Management Manual. You may reach your Representative by email, or by calling the CDBG Program Secretary at (916) 552-9398.